

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Robert G. Taub, Acting Chairman;
Tony Hammond, Vice Chairman;
Mark Acton;
Ruth Y. Goldway; and
Nanci E. Langley

Competitive Product Prices
Global Plus 2C Contracts (MC2012-5)
Negotiated Service Agreement

Docket No. CP2015-69

ORDER APPROVING ADDITIONAL GLOBAL PLUS 2C
NEGOTIATED SERVICE AGREEMENT

(Issued May 26, 2015)

I. INTRODUCTION

The Postal Service seeks to include an additional Global Plus 2C agreement (Agreement) within the Global Plus 2C product.¹ For the reasons discussed below, the Commission approves the Postal Service's request.

¹ Notice of the United States Postal Service of Filing a Functionally Equivalent Global Plus 2C Contract Negotiated Service Agreement and Application for Non-Public Treatment of Materials Filed Under Seal, May 14, 2015 (Notice).

II. BACKGROUND

Agreements included within the Global Plus 2C product offer volume-based prices to Postal Qualified Wholesalers and other high-volume mailers that market mailing services to their end-use customers who ship mail and articles via any combination of the following: International Priority Airmail (IPA), International Surface Air Lift (ISAL), Global Bulk Economy, Global Direct, Global Express Guaranteed (GXG), Priority Mail Express International (PMEI), Priority Mail International (PMI), Commercial ePackets, and International Business Reply Service.

On May 14, 2015, in accordance with 39 C.F.R. § 3015.5, the Postal Service filed its Notice, along with supporting documents. In the Notice, the Postal Service asserts that the Agreement is functionally equivalent to the baseline agreements for the Global Plus 2C product and requests that the Agreement be added to the existing Global Plus 2C product. Notice at 2, 4-5. Among the supporting documents, the Postal Service included a copy of the Governors' Decision authorizing the Global Plus 2C product, the Agreement proposed to be added to the product, a certification of compliance with 39 U.S.C. § 3633(a), and financial workpapers. In addition, the Postal Service submitted an application for non-public treatment of materials requesting that unredacted portions of the Agreement, customer-identifying information, and related financial information remain under seal. Notice, Attachment 4.

The Agreement is intended to take effect May 31, 2015, when the changes in the non-discounted published postage for IPA, ISAL, GXG, PMEI, and PMI are scheduled to go into effect. Notice, Attachment 1 at 3. It is set to expire May 31, 2016. *Id.*

In Order No. 2485, the Commission provided public notice of the Postal Service's filing; established the instant docket for consideration of the filing's consistency with applicable statutory policies and Commission regulations; appointed a Public Representative; and provided an opportunity to comment.²

² Notice and Order Concerning Additional Global Plus 2C Negotiated Service Agreement, May 15, 2015 (Order No. 2485).

III. COMMENTS

The Public Representative filed comments on May 20, 2015.³ No other comments were received.

Based upon a review of the Postal Service's filing, including the information filed under seal with the Commission, the Public Representative concludes the instant Global Plus 2C contract complies with section 3633(a) concerning rates for competitive products, and that the instant contract is functionally equivalent to the baseline agreements. Although acknowledging some differences between the baseline agreements and the instant Global Plus 2C contract, including the elimination of Global Direct service and Global Bulk Economy in Article 3, the Public Representative opines the cumulative effect of these differences does not alter the fundamental service and structure of the baseline contracts.

IV. COMMISSION ANALYSIS

The Commission's responsibilities in this case are to ensure that the Agreement: (1) is functionally equivalent to the baseline agreements established for the Global Plus 2C product; and (2) satisfies the requirements of 39 U.S.C. § 3633 and applicable Commission rules (39 C.F.R. §§ 3015.5 and 3015.7).

Functional equivalence. In Order No. 1135, the Commission added the Global Plus 2C product to the competitive product list and designated two agreements as baseline agreements for assessing the functional equivalence of agreements proposed for inclusion within the Global Plus 2C product.⁴

The Postal Service asserts that its filing demonstrates that the Agreement is functionally equivalent to the baseline agreements, and requests that the Agreement be

³ Public Representative Comments on a Postal Service Notice Concerning an Additional Global Plus 2C Negotiated Service Agreement, May 20, 2015 (PR Comments).

⁴ Docket Nos. MC2012-5, CP2012-10, and CP2012-11, Order Adding Global Plus 2C to the Competitive Product List and Approving Functionally Equivalent Global Plus 2C Agreements, January 13, 2012, at 6, 7 (Order No. 1135).

included within the Global Plus 2C product. Notice at 2. It asserts that the Agreement fits within the draft Mail Classification Schedule language for the Global Plus 2C product. *Id.* at 4. The Postal Service also asserts that the Agreement and the baseline agreements possess similar cost and market characteristics and the same functional terms, but states that prices may differ. *Id.* at 5. The Postal Service identifies numerous differences between the Agreement and the baseline agreements, but asserts that these differences do not affect the fundamental service being offered or the fundamental structure of the Agreement.⁵

The Commission has reviewed the Postal Service's reasons for asserting that the Agreement shares similar cost and market characteristics with the baseline agreements; meets the pricing formula and falls within the classification established in the Governors' Decision authorizing this product; and comports with 39 U.S.C. § 3633 and applicable Commission rules. It also has considered the Public Representative's comments. The Commission concludes that the Agreement is substantially similar to the baseline agreements and that the differences between them do not fundamentally alter either the service the Postal Service will provide under the Agreement or the structure of the Agreement. The Commission therefore finds that the Agreement may be included within the Global Plus 2C product.

Cost considerations. The Commission reviews each competitive product to ensure that it covers its attributable costs, does not cause market dominant products to subsidize competitive products as a whole, and contributes to the Postal Service's institutional costs. 39 U.S.C. § 3633(a); 39 C.F.R. §§ 3015.5 and 3015.7. As long as the revenue generated by a product exceeds its attributable costs, the product is unlikely to reduce the contribution of competitive products as a whole or to adversely affect the ability of competitive products as a whole to contribute an appropriate share of

⁵ Differences include, among others, revisions to existing articles, the deletion of an article relating to service guarantees, the renumbering of several articles, and the inclusion of new articles. *Id.* at 6-8.

institutional costs. In other words, a product that covers its attributable costs is likely to comply with 39 U.S.C. § 3633(a).

The Commission has reviewed the Postal Service's filing, including supporting financial analyses provided under seal, and the Public Representative's comments. Based on this review, the Commission finds that the Agreement should cover its attributable costs. The addition of the Agreement to the Global Plus 2C product will not cause cost coverage for the product to fall below 100 percent because, as the Commission found in the FY 2014 Annual Compliance Determination (ACD), the product as a whole covers its attributable costs.⁶ Consequently, the Commission finds that the addition of the Agreement to the Global Plus 2C product should allow the product to continue to comply with 39 U.S.C. § 3633(a)(2). Because it finds that the addition of the Agreement to the Global Plus 2C product should allow the product to cover its attributable costs, the Commission finds that the addition of the Agreement to the product should not result in competitive products as a whole being subsidized by market dominant products, in accordance with 39 U.S.C. § 3633(a)(1). Similarly, it finds the addition of the Agreement to the Global Plus 2C product is unlikely to prevent competitive products as a whole from contributing an appropriate share of institutional costs, consistent with 39 U.S.C. § 3633(a)(3). Accordingly, a preliminary review of the Agreement indicates it is consistent with section 3633(a). The Commission will review the Agreement's cost coverage, the cost coverage of the Global Plus 2C product, and the contribution of competitive products as a whole to the Postal Service's institutional costs in the ACD to ensure that they continue to comply with 39 U.S.C. § 3633(a).

Rate changes. The Agreement, like previous IBRS competitive agreements, includes clauses addressing cost increases and contingent pricing that allow the Postal Service flexibility to change rates without entering into a new agreement. The Commission addressed the implications of contingency pricing clauses in Order No. 178 and concluded that the Postal Service must file notice of rate changes occurring under

⁶ Fiscal Year 2014 Annual Compliance Determination Report, March 27, 2015, at 71, 76-82.

such clauses pursuant to 39 C.F.R. § 3015.5 and provide a minimum of 15 days' notice.⁷

Other considerations. The intended effective date of the Agreement is May 31, 2015. Notice, Attachment 1 at 3. The Postal Service shall promptly notify the Commission should there be a change in the effective date of the Agreement. The contract is set to expire May 31, 2016, the last day of the month that is one year after the effective date. *Id.*

If the Agreement is terminated prior to the scheduled expiration date, the Postal Service shall promptly file notice of such termination with the Commission in this docket.

V. ORDERING PARAGRAPHS

It is ordered:

1. The Agreement filed in Docket No. CP2015-69 is included within the Global Plus 2C (MC2012-5) product. The revision to the Mail Classification Schedule appears below the signature of this Order and is effective immediately.
2. The Postal Service shall promptly notify the Commission should there be a change in the effective date of the Agreement.
3. The Postal Service shall promptly file notice of the Agreement's termination with the Commission in this docket if the Agreement is terminated prior to the scheduled expiration date.

By the Commission.

Shoshana M. Grove
Secretary

⁷ Docket Nos. MC2009-14 and CP2009-20, Order Concerning International Business Reply Service Contract 1 Negotiated Service Agreement, February 5, 2009, at 10 (Order No. 178).

CHANGES TO THE MAIL CLASSIFICATION SCHEDULE

The following material represents a change to the Mail Classification Schedule. The Commission uses two main conventions when making changes to the Mail Classification Schedule. New text is underlined. Deleted text is struck through.

Part B—Competitive Products

2500 Negotiated Service Agreements

2510 Outbound International

2510.6 Global Plus Contracts

2510.6.6 Products Included in Group (Agreements)

Each product is followed by a list of agreements included within that product.

- Global Plus 2C
Baseline Reference
Docket Nos. MC2012-5, CP2012-10, and CP2012-11
PRC Order No. 1135, January 13, 2012

Included Agreements

CP2015-69, expires May 31, 2016
